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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
INC., AN ARIZONA CORPORATION, FOR
AUTHORITY TO IMPLEMENT ARSENIC
COST RECOVERY MECHANISMS FOR ITS
AGUA FRIA WATER, SUN CITY WEST
WATER, HAVASU WATER, AND TUBAC
WATER DISTRICTS.

Docket No. W-01303A-05-0280

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
INC., AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS SUN CITY
WEST WATER AND WASTEWATER
DISTRICTS.

Docket No. WS-01303A-02-0867

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
INC., AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS MOHAVE
WATER DISTRICT AND ITS HAVASU
WATER DISTRICT

Docket No. W-01303A-02-0869

NOTICE OF FILING RUCO'S REPORT
ON STEP ONE ARSENIC FILING -
AGUA FRIA DISTRICT

Arizona Corporation Commission
DOCKETED

MAY 08 2006

DOCKETED BY	
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1 IN THE MATTER OF THE APPLICATION OF
2 ARIZONA-AMERICAN WATER COMPANY,
3 INC., AN ARIZONA CORPORATION, FOR A
4 DETERMINATION OF THE CURRENT FAIR
5 VALUE OF ITS UTILITY PLANT AND
6 PROPERTY AND FOR INCREASES IN ITS
7 RATES AND CHARGES BASED THEREON
8 FOR UTILITY SERVICE BY ITS ANTHEM
9 WATER DISTRICT, ITS AGUA FRIA WATER
10 DISTRICT, AND ITS ANTHEM/AGUA FRIA
11 WASTEWATER DISTRICT.

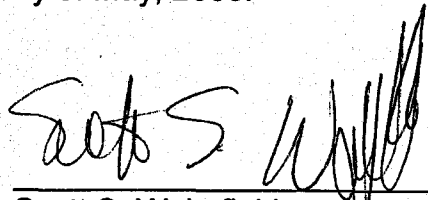
Docket No. WS-01303A-02-0870

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8 **NOTICE OF FILING RUCO'S REPORT ON**
9 **STEP ONE ARSENIC FILING - AGUA FRIA DISTRICT**

10 On April 21, 2006, Arizona-American Water Company filed its Step One ACRM
11 filing for its Agua Fria Water District, seeking a surcharge of \$1.41 to the monthly minimum
12 charge, and \$0.1647 per 1,000 gallons to the commodity rate.

13 The Residential Utility Consumer Office ("RUCO") hereby files its Report on its audit
14 of the ACRM filing. RUCO recommends a surcharge of \$1.38 to the monthly minimum
15 charge and \$0.1611 per 1,000 gallons to the commodity rate.

16 RESPECTFULLY SUBMITTED this 8th day of May, 2006.

17
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19 _____
20 Scott S. Wakefield
21 Chief Counsel
22
23
24

1 AN ORIGINAL AND NINETEEN
2 COPIES of the foregoing filed this
8th day of May, 2006 with:

3 Docket Control
4 Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

5
6 COPY of the foregoing hand delivered/
mailed this 12th day of October, 2005 to:

7 Teena Wolfe
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8 Arizona Corporation Commission
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9 Phoenix, Arizona 85007

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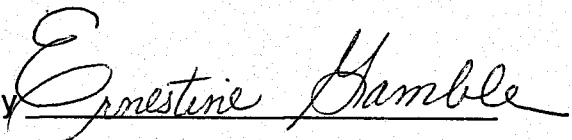
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By 

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Phoenix, Arizona 85004

TO: Stephen Ahearn, Director
Scott Wakefield, Chief Counsel

FROM: Rodney Moore, Public Utilities Analyst V

RE: Report on RUCO's audit of the Arizona-American Water Company filing for an Arsenic Cost Recovery Mechanism (ACRM) Step 1 rate increase for its Agua Fria system.

AUDIT OBJECTIVE: The purpose and objective of this audit was to verify the capital expenditures of the recently completed three arsenic plants in the Agua Fria Water District, to verify that the plants are in service, verify compliance with Decision Nos. 68310 and 66400 authorizing the ACRM, and verify the accuracy of the requested ACRM surcharge.

AUDIT PROCEDURES: I performed the following audit procedures:

- 1) Verified that all schedules that are required by Decision No. 66400 are included in the application.
- 2) Reviewed Earnings Test for compliance, accuracy, and determined if the Company had passed the Earnings Test.
- 3) Reviewed all arsenic plant invoices, looking for such things as misallocations, unreasonable costs, non-arsenic plant costs, double billings etc.
- 4) Verified accuracy of Task Order totals and grand total.
- 5) Reviewed Revenue Requirement calculations for accuracy and compliance.
- 6) Reviewed rate design for compliance with 50/50 requirement, accuracy of calculations, and checked the reasonableness of the billing determinants by comparing to the prior rate case.
- 7) Verified that the Agua Fria plants were in-service.

AUDIT FINDINGS:

The Agua Fria ACRM filing is accurate and in compliance with Decision Nos. 68310 and 66400 with the following two exceptions:

- 1) After the issuance of new debt and equity cost rates in Decision No. 67093, the Company continued to accrue AFUDC on the arsenic plant at the old rates. Thus, the AFUDC - Debt included in the Agua Fria

arsenic plants is overstated by \$5,871 and the AFUDC - Equity is overstated by \$7,606.

- 2) The total Agua Fria arsenic plant request of \$8,821,618 includes \$180,723 in account 105260 Overhead costs. When questioned regarding the nature of these costs, the Company stated that these costs were allocations of overhead that cannot be directly charged to a specific task order so are allocated to all construction projects. While such allocations maybe acceptable in a general rate case, they are not appropriate in the context of an ACRM filing. The creation of an ACRM process was extraordinary and as a result intentionally limited to those costs that were specifically identifiable to the arsenic plant.

AUDIT RECOMMENDATIONS:

The Company's ACRM request should be adjusted to reflect the new AFUDC rates authorized in Decision No. 67093 and the general overhead not specifically related to arsenic plant should be removed. These recommended adjustments and the resultant RUCO recommended ACRM step 1 rate increases are displayed on attached schedule RUCO ACRM -1.

RUCO ADJUSTMENT TO ACRM - AGUA FRIA WATER DISTRICT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] RUCO ADJUSTMENT	[C] RUCO AS ADJUSTED
1	Arsenic Plant Revenue Requirement			
2	Arsenic Plant in Service/Rate Base	SEE NOTE A		
3	Depreciation rate	\$ 8,821,618	(194,200)	\$ 8,627,418
4	Depreciation expense	3.17%		3.17%
5	Depreciation expense net of tax savings ¹	279,229		273,082
6	Recoverable O&M costs	171,450		167,676
7	Recoverable O&M costs net of tax savings ¹	-		-
8	Arsenic Operating Income	\$ (171,450)		\$ (167,676)
9	Rate of return	-1.94%		-1.94%
10	Required Rate of Return ²	6.50%		6.50%
11	Required Operating Income	573,405		560,782
12	Operating Income deficiency	744,855		728,458
13	Gross revenue conversion factor ²	1.62863		1.62863
14	Revenue deficiency	<u>\$ 1,213,094</u>		<u>\$ 1,186,389</u>

¹38.5986 % tax rate per Dec. 67093

²Decision No. 67093

COMPANY PROPOSED

RATES	CURRENT RATES DEC. NO. 67093	ACRM SURCHARGE	TOTAL PROPOSED
Basic Monthly Minimum Service Charge			
5/8" Meter	\$ 9.08	\$ 1.41	\$ 10.49
Commodity Rates Per 1,000 Gallons			
0 to 4,000 gallons	1.3800	0.1647	1.5447
4,001 to 13,000 gallons	2.0600	0.1647	2.2247
13,001 gallons and over	2.4870	0.1647	2.6517

RUCO PROPOSED

RATES	CURRENT RATES DEC. NO. 67093	ACRM SURCHARGE	TOTAL PROPOSED
Basic Monthly Minimum Service Charge			
5/8" Meter	\$ 9.08	\$ 1.38	\$ 10.46
Commodity Rates Per 1,000 Gallons			
0 to 4,000 gallons	1.3800	0.1611	1.5411
4,001 to 13,000 gallons	2.0600	0.1611	2.2211
13,001 gallons and over	2.4870	0.1611	2.6481

NOTE A

RUCO Adjustment	
105260 - OVERHEAD	\$ (180,723)
105350 - AFUDC DEBT (AFUDC Reduced Since July 2004 By Effective Rates In Dec. No. 67093)	(5,871)
105375 - AFUDC EQUITY (AFUDC Reduced Since July 2004 By Effective Rates In Dec. No. 67093)	(7,606)
TOTAL ADJUSTMENT	<u>\$ (194,200)</u>